

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 23-02: Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax

INT 23-02 Dates Discussed

August 13, 2023; September 21, 2023

INT 23-02 References

Current:

SSAP No. 9— Subsequent Events

SSAP No. 101—Income Taxes

INT 23-02 Issue

Key Provisions of the Inflation Reduction Act

1. The Inflation Reduction Act (Act) was enacted on August 16, 2022, and included a new corporate alternative minimum tax (CAMT). The CAMT is effective for tax years beginning after 2022. Reporting entities shall refer to the Act and the resulting regulations and other tax guidance to determine application, but a high-level summary of the CAMT is below.

- a. The tentative CAMT is 15% of the corporation’s “adjusted financial statement income” for the tax year, reduced by the corporate alternative minimum foreign tax credit.
- b. The CAMT differs from the previous traditional alternative minimum tax (AMT) that applied under pre-2018 tax law in that it starts at a financial statement measure (book income) – not an Internal Revenue Code taxable income calculation. Adjusted financial statement income does not include other comprehensive income including unrealized gains and losses on available for sale securities. The determination of whether the CAMT applies is made on a tax-controlled group basis (scope determination), the tentative CAMT is based on the group’s adjusted financial statement income (not adjusted regular taxable income), and any tax due (liability determination) is based on a comparison of consolidated tentative CAMT to consolidated regular tax.
- c. The CAMT applies only to corporations (determined on a tax-controlled group basis as defined for federal income tax purposes, this could include standalone unaffiliated entities which meet the specified income thresholds) with average annual adjusted financial statement income in excess of \$1 billion for three prior taxable years. The threshold is reduced to \$100 million in the case of certain foreign-owned corporations. A corporation that meets the applicable threshold is an “applicable corporation.” Applicable corporations generally remain applicable corporations for subsequent taxable years unless certain limited exceptions apply. Applicable corporation status means that CAMT must be tentatively determined and compared to regular tax liability.
- d. A corporation's adjusted financial statement income is the amount of net income or loss the corporation reports on its applicable financial statement. The income is adjusted for various purposes including certain adjustments in the case of consolidated returns or for foreign income.

- e. The Act includes references to the tax code which provides a hierarchy for determining the “applicable financial statement.” At a high level, the first choice is U.S. generally accepted accounting principles (GAAP) financial statements; the second choice is international financial reporting standards (IFRS) financial statements. If GAAP and IFRS financial statements are not available, the financial statements filed by the taxpayer with any other regulatory or government body are acceptable. If the taxpayer is part of a tax-controlled group of corporations, the group’s applicable financial statement is the applicable financial statement for each member of the group.
- f. To determine its U.S. federal income tax liability, an applicable corporation will need to compute taxes under both systems—the regular tax system and the CAMT system. The CAMT is payable to the extent the tentative CAMT exceeds the sum of the regular corporate income tax plus base erosion and anti-abuse tax (BEAT) liability.
- g. Any CAMT paid is available indefinitely as a credit carryover that would reduce future regular tax in future years when the regular tax liability is in excess of CAMT tax liability. That is, the CAMT tax credit can be used to reduce the regular tax but not below CAMT liability.
- h. A foreign tax credit (FTC) may reduce the tentative minimum CAMT. Note that unused FTCs may be carried forward for 5 years. General business credits can generally offset up to 75% of the sum of regular and minimum tax.

2. The Working Group previously issued *INT 22-02: Third Quarter 2022 through Second Quarter 2023 Reporting of the Inflation Reduction Act - Corporate Alternative Minimum Tax* which addressed third quarter 2022 through second quarter 2023. INT 22-02 noted that a reasonable estimate of the CAMT was not possible for those reporting periods and required disclosures.

3. This interpretation is focused on addressing accounting and reporting aspects of the CAMT for third quarter 2023 reporting (reporting period July 1 through September 30, 2023). While most insurers will not be applicable corporations, this interpretation provides temporary third quarter 2023 statutory accounting guidance for all reporting entities that are or expect to be applicable entities with respect to the CAMT. A separate interpretation is being developed for year-end 2023 and periods thereafter.

4. Although it is likely that most insurers that are applicable corporations will be members of a tax-controlled group of corporations and included in a consolidated federal income tax return with other members of the group, this interpretation applies to all applicable reporting entities. For reporting entities subject to the CAMT, this includes an unaffiliated corporation¹ that files a separate tax return, a member of a tax-controlled group not included in the common parent company’s consolidated tax return that files a separate company tax return or a separate consolidated tax return with other members of the group, or as a member of the common parent’s consolidated return group.

Interpretation Issues

5. *SSAP No. 101—Income Taxes*, paragraph 7.e. requires the statutory valuation allowance adjustment as a direct reduction in the gross DTA if, based on the weight of available evidence, it is more likely than not that some or all of the gross DTAs will not be realized. Gross DTA less the statutory valuation allowance results in adjusted gross DTAs. The statutory valuation allowance adjustment is not reported as a separate line in the statutory financial statements (it is an off-balance sheet item that reduces the gross DTAs). The statutory valuation allowance is disclosed.

¹ As used herein, an “unaffiliated” corporation is one that is not a member of a tax-controlled group.

6. The statutory accounting calculation for admissible DTAs is determined using adjusted gross DTAs (gross DTAs reduced by the valuation allowance). For statutory accounting, admittance of adjusted gross DTAs in SSAP No. 101 depends on a three-component calculation, for which the second step limits admittance of adjusted gross DTAs to those that are expected to be realized in a timeframe that does not exceed three years. The actual number of years permitted depends on specifics for each reporting entity (type and other information about the reporting entity), but the maximum timeframe is three years. The last step admits DTAs which can be offset by DTLs.

7. Guidance in *SSAP No. 9—Subsequent Events* requires consideration of Type I and Type II² subsequent events through the date of the statutory financial statements and the date of issuance of the audited financial statements, or the date in which audited financial statements are available to be issued. For subsequent events identified after the statutory financial statements reporting date (example September 30) but before the statements are filed (example, November 15), reporting entities are generally required by their domestic state to reflect estimates in their filed statutory financial statements. Under this guidance, as additional information is made available on the impact of the Act, or information becomes available to update estimates and assessments, under existing statutory accounting guidance in SSAP No. 9, reporting entities would need to identify updated estimates as a Type I subsequent event in the audited financial statements.

Issue 1 – Consideration of the Act for Third Quarter 2023 Financial Statements

8. Under statutory accounting guidance, reporting entities filing statutory financial statements would have to consider the applicability of the CAMT and if applicable, attempt to determine the impact on the statutory valuation allowance as well as assess DTAs for admissibility (e.g., realization timeframe). These elements will be collectively referred to as “calculations impacted by the Act” or “calculations impacted by the CAMT.” Exceptions to these calculations impacted by the CAMT have previously been provided under INT 22-02 through second quarter 2023.

9. This interpretation will address the issue for what reporting entities are required to report or disclose regarding the calculations impacted by the CAMT for third quarter 2023 (July 1 through September 30, 2023, financial statements.)

Issue 2 – Consideration of Subsequent Events for Third Quarter 2023 Financial Statements

10. SSAP No. 9 requires consideration of subsequent events through the date of the statutory financial statements and the date of issuance of the audited financial statements, or the date in which audited financial statements are available to be issued. An exception to this requirement has previously been provided under INT 22-02 through second quarter 2023.

11. For reporting entities that materially revise or establish calculations impacted by the CAMT during the third quarter 2023 or immediately subsequent to the third quarter (including the statutory valuation allowance, the timing of determination of net admitted DTAs, and the determination of the applicability of the CAMT and any related liabilities), this interpretation will address the extent a Type I or Type II subsequent event assessment is required for third quarter 2023 financial reporting.

INT 23-02 Discussion

² A Type I subsequent event relates to an event or transaction that provides additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Under SSAP No. 9, entities shall recognize in the financial statements the effects of all material Type I subsequent events. A Type II subsequent event pertains to events or transactions that provide evidence to conditions that did not exist at the balance sheet date but arose after that date. Type II events are disclosed in the financial statements.

12. The Statutory Accounting Principles (E) Working Group tentative consensuses to the noted issues are included below.

Response: Issue 1 – Consideration of the Act for Third Quarter 2023 Financial Statements

13. Reporting entities that are aware they will be subject to the CAMT would normally have to reflect the effects of the Act on the calculations impacted by the CAMT if reasonably estimable for the third quarter 2023. The Act was adopted in August 2022; however, entities may continue to have a considerable number of unknown variables for September 30, 2023, reporting. As such, the Working Group has determined that a reasonable estimate might not be determinable for third quarter 2023 interim financial statements for the calculations impacted by the CAMT for some entities.

14. If a reporting entity is an applicable corporation and has determined a reasonable estimate, it shall be disclosed. If a reporting entity is an applicable corporation and cannot determine a reasonable estimate, the reporting entity shall disclose that they expect to be an applicable corporation but have not determined a reasonable estimate.

15. Because reasonable estimates of calculations impacted by the CAMT might not be determinable, reporting entities shall only disclose impacts related to CAMT for third quarter 2023 financial statements for which reasonable estimates are possible. If the reporting entity is an applicable corporation, they shall make the following disclosures regarding the CAMT and the Act:

- a. A statement regarding whether the reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined if it expects to be liable for CAMT in 2023. For example:
 - i. The reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined that it does not expect to be liable for CAMT in 2023.
 - ii. The reporting entity (or the controlled group of corporations of which the reporting entity is a member) has not determined as of the reporting date if it will be liable for CAMT in 2023. The third quarter 2023 financial statements do not include an estimated impact of the CAMT because a reasonable estimate cannot be made.
 - iii. The reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined that it expects to be liable for CAMT in 2023. The third quarter 2023 financial statements shall disclose the estimated impact of the CAMT.

Response: Issue 2 – Consideration of Subsequent Events for Third Quarter 2023 Financial Statements

16. For third quarter 2023 reporting, CAMT updated estimates or other calculations affected by the Act determined subsequent to third quarter statutory financial statement or filing date shall not be recognized as Type I subsequent events. Meaning, third quarter financial statements are not required to reflect updated estimates subsequent to the third quarter reporting date and prior to the filing of the third quarter financial statements. With the disclosure required under Issue 1, additional subsequent event disclosure (such as what would be required for Type II event) is not required.

17. Reporting entities shall be working in good faith to complete the accounting for the changes adopted under the Act.

INT 23-02 Status

18. The tentative consensuses in this interpretation were adopted on September 21, 2023 to provide reporting guidance regarding the calculations impacted by the CAMT and provide limited-scope, limited-time exceptions to the valuation allowance and DTA calculations in response to legislation under SSAP No. 101 as well as Type I subsequent event requirements in SSAP No. 9 for September 30, 2023, statutory reporting. As detailed, the exceptions to SSAP No. 101 and SSAP No. 9 are effective for the third quarter 2023.

19. This interpretation will be automatically nullified on November 16, 2023, and as additional guidance for year end 2023 reporting is being separately developed.

20. No further discussion is planned.